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Department of the Treasury
Internal Revenue Service

Publication 501

Exemptions, Standard Deduction, and Filing Information

For use in preparing
1989 Returns

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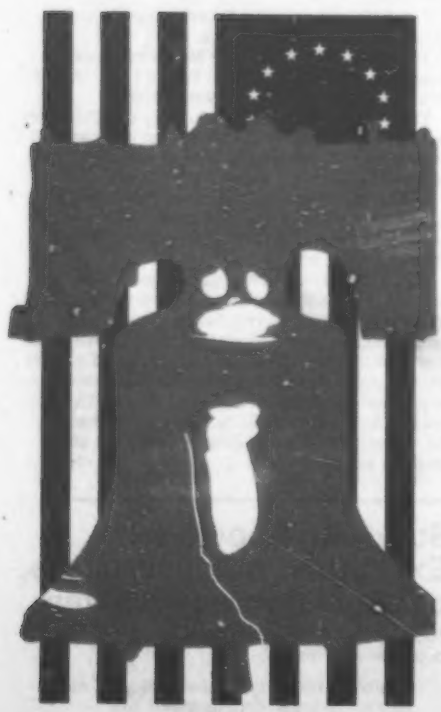

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Important Changes for 1989

Exemptions. The amount you may deduct as an exemption is increased from $1,950 in 1988 to $2,000 in 1989.

Phaseout of exemptions. You may lose the benefit of part or all of your exemptions if you have taxable income of more than $93,130.

Standard deduction. The standard deduction for taxpayers who do not itemize deductions, on Schedule A of Form 1040, is higher in 1989 than it was in 1988. The amount depends upon your filing status.

Social security numbers for dependents. If you claim a dependent on a tax return, you have to list the dependent's social security number if he or she is age ***two or older***.

Denial of dependency exemption for certain student dependents. For tax years beginning after 1988, you cannot claim an exemption for your child who is age 24 or older at the end of the year and has gross income equal to or over the exemption amount ($2,000 for the 1989 tax year), even if your child is a student. If you cannot claim an exemption for your child under this rule, your child may claim an exemption on his or her own return.

Election to claim child's unearned income on parents' return. For tax years beginning after 1988, you may be able to include your child's interest and dividend income on your tax return instead of figuring the tax on your child's income at your tax rates. If you choose to do this, your child is not required to file a return.

Introduction

This publication discusses some tax laws that affect every person who may have to file a federal income tax return. It provides answers to some basic questions: who must file; what filing status to choose; how many exemptions to claim; and the amount of the standard deduction.

The first section of this publication explains **who must file** an income tax return. If you have little or no gross income, reading this section will help you decide if you need to file a return.

The second section helps you determine what **filing status** you can use. Your filing status is important in determining your filing requirements, your standard deduction, and your tax rate. It also helps determine what credits you may be entitled to.

The third section discusses **personal and dependency exemptions** and the **social security number requirement** for dependents. It also covers rules for multiple support agreements and rules on the support test for divorced or separated parents.

The fourth section gives the rules and dollar amounts for the **standard deduction** — a benefit for taxpayers who do not itemize their deductions. This section also discusses the benefit for nonitemizing taxpayers who are blind or age 65 or older, and special rules for dependents. In addition, this section may help you decide which method — taking a standard deduction or itemizing deductions — is best for you.

The last section covers special rules for taxpayers who take care of **foster children or adults**, including the income you may have to report and the expenses you may be entitled to deduct.

At the end of this publication, you will find an **index** to quickly find topics of interest to you.

Free Publications and Forms

If you need information on a subject not covered in this publication, you may check our other free publications.

To order publications and forms, call our toll-free telephone number 1–800–424–FORM(3676) or write the IRS Forms Distribution Center for your area as shown in the income tax package.

Who Must File

If you are a citizen or resident of the United States, or a resident of Puerto Rico, you must file a federal income tax return if you meet the filing requirements (your legal requirement to file a tax return) for one of the categories listed below:

- Individuals — In General
- Dependents
- Self-Employed Persons
- Surviving Spouses, Executors, Administrators, or Legal Representatives
- U.S. Citizens Living Abroad
- Residents of Puerto Rico
- Resident, Nonresident, and Dual-Status Aliens

The filing requirements apply even if you owe no tax. ***Willful failure to file*** when required to do so may result in criminal prosecution.

For information on what form to use — Form 1040EZ, Form 1040A, or Form 1040 — see the instructions in your tax package.

Special rules. Some persons must file a tax return even though their gross income is less than the amount shown for their filing status in the *1989 Filing Requirements* chart shown later. You must file a return if:

- You can be claimed as a dependent on another person's return, your parent does not report your income, and you had gross income of over $500 and any investment-type income,
- You had net earnings from self-employment income of at least $400,
- You received any advanced earned income credit payments from your employer (this amount should be shown on your Form W–2 in Box 7),
- You owe social security tax on tips you did not report to your employer,
- You owe uncollected social security tax or railroad retirement tax on tips you did report to your employer,
- You owe alternative minimum tax,
- You owe tax on an individual retirement arrangement (IRA) or a qualified retirement plan,
- You have to repay tax on an investment credit or low income housing credit you claimed in a prior year, or
- You had wages of $100 or more from a church or qualified church-controlled organization that are exempt from employer social security taxes.

If you had income from U.S. possessions, see Publication 570, *Tax Guide for Individuals in U.S. Possessions*.

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Who Should File

Even if you do not meet one of the filing requirements discussed in this section, you should file a tax return if one of the following applies.

- You had income tax withheld from your pay. By filing a return, you can get a refund even if another taxpayer can claim you as a dependent.
- You qualify for the earned income credit. See Publication 596, *Earned Income Credit*, for more information.

Individuals — In General

If you are a U.S. citizen or resident, your filing requirement depends upon your gross income, your filing status, and your age, unless you meet one of the exceptions or other categories discussed earlier.

Gross income is all income you receive in the form of money, goods, property, and services that is not exempt from tax. If you are married and live with your spouse in a community property state, half of any income described by state law as community income may be considered yours. For a list of community property states, see *Community property states*, later.

Filing status is determined as of the last day of your tax year, which is December 31 for most taxpayers. Your filing status depends upon whether you are single or married and have dependents. Filing status and dependents are discussed in detail later in this publication.

Age. Your age is a factor in determining your filing requirement only if you are 65 or older at the end of your tax year. You are considered to be age 65 for 1989, if your 65th birthday is on or before January 1, 1990.

Earned income is salaries, wages, professional fees, and other amounts received as pay for work you actually perform. Earned income (only for purposes of filing requirements and the standard deduction) also includes any part of a scholarship that you must include in your gross income. For example, you are single and your only income is a scholarship, of which $3,000 is taxable. In this case, you would not be required to file a return. See Publication 520, *Scholarships and Fellowships*, for more information on taxable and nontaxable scholarships.

Unearned income is income such as interest, dividends, capital gains, trust distributions of interest, dividends, and capital gains, and survivor annuities.

Filing Requirements for Most Taxpayers

You must file a 1989 return if your gross income was at least the amount shown in the following chart.

1989 Filing Requirements

Filing Status	1989 Gross Income
Single	
Under 65	$ 5,100
Age 65 or older	5,850
Married Filing Jointly	
Both spouses under 65	$ 9,200
One spouse 65 or older	9,800
Both spouses 65 or older	10,400
Not living with spouse at end of year (or on date spouse died)	2,000
Married Filing Separately	
All — regardless of age	$ 2,000
Head of Household	
Under age 65	$ 6,550
Age 65 or older	7,300
Qualifying Widow(er)	
Under age 65	$ 7,200
Age 65 or older	7,800

Dependents

The filing requirements for dependents depend on whether they have earned income, unearned income, or both. A person who can be claimed as a dependent by another taxpayer (as is often the case for children and older taxpayers), must file a tax return if he or she meets one of the following criteria.

Earned Income Only

If **all** of a dependent's income is **earned income** the dependent must file a return if his or her gross (total) income is more than the amount listed in the following table.

Filing Status	Amount
Single	
Under 65	$3,100
Age 65 or older or blind	3,850
Age 65 or older and blind	4,600
Married Filing Separately	
Spouse itemizes deductions	$ 5
Under age 65	2,600
Age 65 or older or blind	3,200
Age 65 or older and blind	3,800

Unearned Income Only

If **all** of the dependent's income is **unearned income** and in the case of a child under age 14, his or her parents do not choose to report the child's income on their return, the dependent must file a return if his or her gross (total) income is more than the amount shown in the following table.

Filing Status	Amount
Single	
Under 65	$ 500
Age 65 or older or blind	1,250
Age 65 or older and blind	2,000
Married Filing Separately	
Spouse itemizes deductions	$ 5
Under age 65	500
Age 65 or older or blind	1,100
Age 65 or older and blind	1,700

Election to claim child's unearned income on parent's return. For tax years beginning after 1988, instead of figuring the tax on your child's income at your tax rates, you may elect to include your child's income on your tax return. If you make this election, the child is not required to file a return. However, all of the following conditions must be met:

- Your child is under age 14 and has no earned income,
- Your child has gross income only from interest and dividends (including Alaska Permanent Fund Dividends),
- The interest and dividend income is more than $500 and less than $5,000,
- No estimated tax payments are made during the year in the name and social security number of your child, and
- Your child is not subject to backup withholding.

For more information, see Publication 929, *Tax Rules for Children and Dependents*, and **Form 8814** *Parent's Election to Report Child's Interest and Dividends*.

Earned and Unearned Income

If a dependent has **both earned and unearned income,** the dependent generally must file a return if the total income is more than $500.

If the dependent is blind or age 65 or older, he or she must file a return if his or her gross (total) income is more than the amount on line 7 of the following worksheet.

Filing Requirements Worksheet for Dependents Who Are 65 or Older or Blind

1.	Enter dependent's *earned* income	
2.	Minimum amount	$ 500
3.	Compare the amounts on lines 1 and 2. Enter the *larger* of the two amounts	
4.	Enter the appropriate amount from the following table.	
	Filing Status / **Amount**: Single $3,100; Married Filing Separately 2,800	
5.	Compare the amounts on lines 3 and 4. Enter the *smaller* of the two amounts	
6.	Enter the amount from the following table that applies to the dependent's filing status and situation	
	Filing Status / **Amount**: Single: Either 65 or older or blind $ 750; 65 or older and blind 1,500; Married Filing Separately: Either 65 or older or blind $ 600; 65 or older and blind 1,200	
7.	Add the amounts on lines 5 and 6. Enter the total	
8.	Enter the dependent's total income.	

If the amount on line 8 is more than the amount on line 7, the dependent must file an income tax return.

Self-Employed Persons

If you are self-employed, you must file a return if you had net earnings from self-employment of $400 or more. Net earnings from self-employment generally are the net income (gross income minus deductible business expenses) from your business or profession. If you are self-employed, see Publication 533, *Self-Employment Tax*, for more information.

The $400 net earnings figure applies to self-employed persons of any age.

You must include your net self-employment income in your gross income even if your net self-employment income is less than $400.

You are self-employed if you carry on a trade or business as a sole proprietor, are an independent contractor or an active member of a partnership, or are otherwise in business for yourself.

Self-employment includes more than regular full-time business activities. It also includes certain part-time work that you do at home or in addition to your regular job.

You must pay self-employment tax on your net earnings from self-employment. This tax is comparable to the social security tax withheld from an employee's wages. An individual who earned less than $48,000 in 1989 as an employee and earned $400 or more from self-employment normally has to pay self-employment tax. The self-employment tax rate for 1989 is 13.02%. Complete Schedule SE, *Social Security Self-Employment Tax*, and attach it to Form 1040.

Surviving Spouses, Executors, Administrators, or Legal Representatives

You must file an income tax return for a decedent (a person who died) if:

- You are the surviving spouse, executor, administrator, or legal representative, and

The decedent met the filing requirements at the time of his or her death for individuals in general or for self-employed persons.

For more information, see Publication 559, *Tax Information for Survivors, Executors, and Administrators.*

U.S. Citizens Living Abroad

If you are a U.S. citizen living outside the United States, you must file a return if you meet the income requirements for individuals in general or for self-employed persons. For more information, see Publication 54, *Tax Guide for U.S. Citizens and Resident Aliens Abroad.*

Residents of Puerto Rico

If you are a U.S. citizen and a resident of Puerto Rico, you must file a U.S. income tax return if you meet the income requirements for individuals in general or for self-employed persons. This is in addition to any legal requirement you may have to file an income tax return for Puerto Rico. If you are a resident of Puerto Rico for the whole year, your U.S. gross income does not include income from sources within Puerto Rico, except income received for your services as an employee of the United States or any U.S. agency. For more information, see Publication 570, *Tax Guide for Individuals in U.S. Possessions.*

Resident, Nonresident, and Dual-Status Aliens

Your status as an alien — resident, nonresident, or dual-status — determines how you file your income tax return.

Determining your status. The rules to determine if you are a resident or nonresident alien are discussed in Publication 519, *U.S. Tax Guide for Aliens.*

Resident aliens. If you are a resident alien for the entire year, you must file a tax return following the same rules that apply to U.S. citizens. Your filing requirements, for example, are the same as discussed earlier under *Individuals — In General.*

Nonresident aliens. If you are a nonresident alien (unless you live in American Samoa or Puerto Rico for the entire year), the rules and tax forms that apply to you may be different from those that apply to U.S. citizens. See Publication 519 for more information.

Dual-status aliens. If you were a resident alien and a nonresident alien during the same tax year, you are a dual-status alien. Different rules apply for the part of the year you were a resident of the United States and the part of the year you were a nonresident alien. See Publication 519 for information on dual-status aliens.

Filing Status

Your filing status is used in determining your filing requirements, standard deduction, and correct tax. It is also important in determining whether you are eligible to claim certain other deductions and credits. See *The Standard Deduction* later for more information. Your correct tax is determined by using the column in the Tax Table or the Tax Rate Schedule that applies to your filing status. There are five filing statuses:

Single

Married filing jointly

Married filing separately

Head of household

Qualifying widow or widower

You must indicate your filing status by checking the appropriate box on lines 1 through 5 of Form 1040 or Form 1040A. There are no boxes for filing status on Form 1040EZ because your filing status must be single (under 65 and not blind) to file that form.

Single taxpayers. You must file as single if, on the last day of your tax year, you are unmarried or separated from your spouse either by divorce or separate maintenance decree and you do not qualify for another filing status.

State law governs whether you are married, divorced, or legally separated under a decree of separate maintenance.

Married taxpayers. You and your spouse may be able to file a joint return or you may file separate returns.

Head of household or qualifying widow or widower. If you are single, separated, divorced, or widowed, you may be able to file as a head of household. If you are a qualifying widow or widower with a dependent child, you may be able to use the joint tax rates.

Single

Your filing status is ***single*** if you are unmarried or separated from your spouse either by a divorce or separate maintenance decree, and do not qualify for another filing status. However, if you were considered married for part of the year and lived in a community property state (listed under *Married Filing Separately*), special rules may apply in determining your income and expenses. Also see Publication 555, *Community Property and the Federal Income Tax*, for more information.

You may file Form 1040EZ (if you have no dependents, are under 65 and not blind), Form 1040A, or Form 1040. If you file Form 1040A or Form 1040, show your filing status by checking the box on line 1. Use the *Single* column of the Tax Table, or *Schedule X* of the Tax Rate Schedules, to figure your tax.

If you file as single, you do not qualify for the earned income credit.

Married Filing Jointly

You may choose ***married filing jointly*** as your filing status if you are married and both you and your spouse agree to file a joint return. On a joint return, you report your combined income and deduct your combined, allowable expenses.

If you and your spouse decide to file a joint return, your tax may be lower than the other filing statuses, your standard deduction (if you do not itemize deductions) may be higher, and you may qualify for tax benefits that do not apply to other filing statuses. You may file a joint return even if one of you had no income or deductions. If you and your spouse each have income, you may want to figure your tax both on a joint return and on separate returns (using the filing status of Married filing separately) to see which method gives you the lower tax.

If you file as married filing jointly, you may use Form 1040A or Form 1040. You select your filing status by checking the box on line 2 on either form. You figure your tax by using the *Married filing jointly* column of the Tax Table, or *Schedule Y–1* of the Tax Rate Schedules.

You are considered married for the whole year if on the last day of your tax year you are:

1) Married and living together as husband and wife, or
2) Living together in a ***common law marriage*** that is recognized in the state where you now live or in the state where the common law marriage began, or
3) Married and living apart, but not legally separated under a decree of divorce or separate maintenance, or
4) Separated under an interlocutory (not final) decree of divorce. For purposes of filing a joint return you are not considered divorced.

If your spouse died during the year, you are considered married for the whole year.

If you did not remarry before the end of the tax year, you may file a joint return for yourself and your deceased spouse. You also may be entitled, for the next 2 years, to the special benefits for qualifying widows and widowers, described later.

If you remarried before the end of the tax year, you may file a joint return with your new spouse. Your deceased spouse's filing status is married filing separately.

Married person living apart. Even though you are not divorced or legally separated, if you live apart from your spouse and meet certain tests, you may be considered ***unmarried***, and may file as head of household, instead of as married filing separately. See *Head of Household*, later. If you qualify to file as head of household, your standard deduction will be higher, your tax may be lower, and you may be able to claim the earned income credit.

If you are divorced under a final decree by the last day of the year, you are considered single for the whole year.

Exception. If you obtain a divorce in one year for the sole purpose of filing tax returns as unmarried individuals, and at the time of divorce you intended to and did remarry each other in the next tax year, you and your spouse must file as married individuals.

Form **1040A** — Department of the Treasury—Internal Revenue Service — **U.S. Individual Income Tax Return** — **1989**

Step 2
Check your filing status
(Check only one.)

1 ☐ Single (See if you can use Form 1040EZ.)
2 ☐ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security number above and spouse's full name here. _____
4 ☐ Head of household (with qualifying person). (See page 16.) If the qualifying person is your child but not your dependent, enter this child's name here. _____
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19____). (See page 17.)

Form **1040** — Department of the Treasury—Internal Revenue Service — **U.S. Individual Income Tax Return** — **1989**

Filing Status
Check only one box.

1 ☐ Single
2 ☐ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security no. above and full name here. _____
4 ☐ Head of household (with qualifying person). (See page 7 of Instructions.) If the qualifying person is your child but not your dependent, enter child's name here. _____
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19). (See page 7 of Instructions.)

If you obtain a court decree of annulment, which holds that no valid marriage ever existed, you must file as single or head of household, whichever applies, for that tax year. You must also file amended returns (Form 1040X, *Amended U.S. Individual Income Tax Return*) claiming single or head of household status for all tax years affected by the annulment that are not closed by the statute of limitations for filing a tax return. The statute of limitations generally does not expire until 3 years after your original return was filed.

Filing a Joint Return

Both you and your spouse must include all your income, exemptions, and deductions on your joint return.

Both of you must use the same accounting period, but you may use different accounting methods.

Both of you may be held responsible, jointly and individually, for the tax and any interest or penalty due on your joint return. One spouse may be held responsible for all the tax due even though all the income was earned by the other spouse.

Exception. You may not have to pay the tax, interest, and penalties on a joint return if you establish that you did not know, and had no reason to know, that there was a substantial understatement of tax that resulted because your spouse:

- Omitted a gross income item, or
- Claimed a deduction, credit, or property basis in an amount for which there is no basis in fact or law.

When the facts and circumstances are considered, it also must be inequitable to hold you liable for the tax due. One factor is whether you significantly benefited, directly or indirectly, from your spouse's actions. Normal support is not a significant benefit.

This exception applies only if your spouse's action resulted in an understatement of tax of more than $500. To the extent the understatement is attributable to claiming an incorrect deduction, credit, or property basis, this exception is available only if your liability for tax, interest, and penalties is more than 10% of your adjusted gross income for the most recent tax year before the deficiency notice was mailed if that income was $20,000 or less (25% if your adjusted gross income is more than $20,000). If you remarried before the end of that most recent year, include the income of your new spouse to see if the exception applies to you.

For purposes of this exception, community property rules do not apply to items of gross income (other than gross income from property).

Divorced taxpayer. You may still be held jointly and individually responsible for any tax, interest, and penalties due on a joint return filed before your divorce. This responsibility applies even if your divorce decree states that your former spouse will be responsible for any amounts due on previously filed joint returns.

Signing a joint return. For a return to be considered a joint return, both husband and wife must sign the return. If your spouse died before signing the return, see Publication 559, *Tax Information for Survivors, Executors, and Administrators.*

If your spouse is away from home, you should prepare the return, sign it, and send it to your spouse to sign so that it can be filed on time.

If your spouse cannot sign because of disease or injury and tells you to sign, you may sign your spouse's name in the proper space on the return followed by the words "By (your name), Husband (or Wife)." Be sure to also sign in the space provided for your signature. Attach a dated statement, signed by you, to the return. The statement should include: the name of the return you are filing; the tax year; the reason your spouse cannot sign; and that your spouse has agreed to your signing for him or her.

If you are the guardian of your spouse who is mentally incompetent, you may sign the return for your spouse as guardian.

If your spouse cannot sign the joint return for any other reason, you may sign for your spouse only if you are given a valid power of attorney (a legal document giving you permission to act for your spouse). Attach the power of attorney to your tax return. You may use **Form 2848,** *Power of Attorney and Declaration of Representative.*

Nonresident alien and dual-status alien. A joint return cannot be made if either spouse is a nonresident alien at any time during the tax year. However, if at the end of the year one spouse was a nonresident alien or dual-status alien married to a U.S. citizen or resident, both spouses may choose to file a joint return. If you do file a joint return, you and your spouse must agree to be taxed on your combined worldwide income. See Publication 519, *U.S. Tax Guide for Aliens.*

Married Filing Separately

You may choose ***married filing separately*** as your filing status if you are married. This method may benefit you if you want to be responsible only for your own tax or if this method results in less tax than a joint return. You may be required to use this filing status if you and your spouse do not agree to file a joint return.

Unless you are required to file separately, you may want to figure your tax both ways (on a joint return and on separate returns) to make sure you are using the method that results in lower combined tax. However, you will generally pay more combined tax on separate returns than you would on a joint return. This is because the tax rate is higher for married persons filing separately.

If you file separate returns, you each report only your income, exemptions (you may not split an exemption), credits, and deductions on your individual returns. You may file a separate return, and claim an exemption for your spouse, if your spouse had no gross income. However, if your spouse had any gross income, you may not claim an exemption for him or her on your separate return.

If you file married filing separately, you may use Form 1040A or Form 1040. You select your filing status by checking the box on line 3 of either form. You must also write your spouse's social security number and full name in the spaces provided for them. You figure your tax by using the *Married filing separately* column of the Tax Table or *Schedule Y–2* of the Tax Rate Schedules.

Separate Returns

Special rules apply if you file a separate return.

Deductions on separate returns. If you and your spouse file separate returns and one of you itemizes deductions, the other should also itemize deductions, because he or she cannot claim the standard deduction. However, see *Married person living apart,* earlier, and *The Standard Deduction,* later.

Community property states. If you live in Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, or Wisconsin and file separately, your income may be separate income or community income for income tax purposes. See Publication 555, *Community Property and the Federal Income Tax.*

If you file a separate return:

- You cannot take the credit for child and dependent care expenses in most instances.
- You cannot take the earned income credit.
- If you lived with your spouse at any time in 1989:
  a) You cannot take the credit for the elderly or the disabled.
  b) You may have to include in income up to one-half of any social security benefits (including any equivalent railroad retirement benefits) you received in 1989.

Individual Retirement Arrangements (IRAs). If you make contributions to your Individual Retirement Account, your IRA deduction is subject to a phaseout rule if either you or your spouse was covered by an employer retirement plan, and you and your spouse file separate returns, and you lived together during the year. See Publication 590, *Individual Retirement Arrangements (IRAs).*

Passive activity losses. You may generally offset a loss from a rental real estate activity of up to $25,000 against your nonpassive income if you actively participate in the activity. However, if you are married filing a separate return, and you do not live apart from your spouse at all times during the year, your maximum offset for rental real estate activities is $12,500. See Publication 925, *Passive Activity and At-Risk Rules.*

Joint Return After Separate Returns

You may change your filing status by filing an amended return using Form 1040X.

If you or your spouse (or each of you) file a separate return, you may change to a joint return any time within 3 years from the due date of the separate return or returns. This does not include any extensions. A separate return includes a return filed by you or your spouse claiming married filing separately, single, or head of household filing status. If the amount paid on your separate returns is less than the total tax shown on the joint return, you must pay the additional tax due on the joint return when you file it. See *Changing your mind* under *The Standard Deduction* later.

Separate Returns After Joint Return

Once you file a joint return, you may not choose to file separate returns for that year after the due date of the return.

Head of Household

Your filing status is ***head of household*** if you are unmarried or considered unmarried on the last day of the year and pay more than half the cost of keeping up a home for you and a dependent. The rules to qualify for head of household are explained below.

If you qualify to file as head of household, your tax rate will be lower than the rates for single or married filing separately, and you may qualify for the earned income credit and the child care credit. You also receive a higher standard deduction than if you file as single or married filing separately. (Note: you can only claim a standard deduction amount if you do not itemize deductions.)

Note. If you were considered married for part of the year and lived in a community property state (listed under *Married Filing Separately*), special rules may apply in determining your income and expenses. See Publication 555 for more information.

If you file as head of household, you may use either Form 1040A or Form 1040. Indicate your choice of this filing status by checking the box on line 4 of either form. If you have a dependent who qualifies you as head of household but you cannot

claim an exemption for that person, enter the dependent's name in the space provided on line 4 of your Form 1040A or Form 1040. You figure your tax by using the *Head of a household* column of the Tax Table or *Schedule Z* of the Tax Rate Schedules.

You may be eligible to file as head of household if you were unmarried or were considered unmarried on the last day of the year. You must have paid more than half the cost of keeping up a home that was the main home for more than half the year for you and any of the following:

1) Your child, grandchild, stepchild, or adopted child who is:
   a) Single. This child does not have to be your dependent.
   b) Married. This child must qualify as your dependent unless you state in writing to the noncustodial parent that he or she may claim an exemption for the dependent, or, the noncustodial parent provides at least $600 support for the dependent and claims an exemption for the dependent under a pre-1985 divorce or separation agreement.
2) Any relative listed below whom you can claim as a dependent. However, if your dependent parent does not live with you, a special rule applies. See *Father or mother* later.

Parent	Brother-in-law
Grandparent	Sister-in-law
Brother	Son-in-law
Sister	Daughter-in-law, or
Stepbrother	If related by blood:
Stepsister	Uncle
Stepmother	Aunt
Stepfather	Nephew
Mother-in-law	Niece
Father-in-law	

You do not qualify as a head of household if you can only claim as a dependent under a multiple support agreement, a relative in (1b) or (2) above, or a parent who does not live with you.

You are related by blood to an uncle or aunt if he or she is the brother or sister of your mother or father.

You are related by blood to a nephew or niece if he or she is the child of your brother or sister.

Foster child. You qualify as head of household if you meet the rules above and you can claim your foster child as a dependent.

Father or mother. If your dependent parent does not live with you, you must pay more than half the cost of keeping up a home that was the main home for the ***entire*** year for your father or mother, in order for you to be eligible to file as head of household. You are keeping up a main home for your dependent father or mother if you pay more than half the cost of keeping your parent in a rest home or home for the elderly.

You are considered unmarried on the last day of the tax year if you meet all of the following tests.

1) You file a separate return.
2) You paid more than half the cost of keeping up your home for the tax year.
3) Your spouse did not live in your home during the last 6 months of the tax year.
4) Your home was, for more than half the year, the main home of your child, stepchild, or adopted child whom you can claim as a dependent. However, you can still meet this test if you cannot claim your child as a dependent only because:
   a) You state in writing to the noncustodial parent that he or she may claim an exemption for the child, or
   b) The noncustodial parent provides at least $600 support for the dependent and claims an exemption for the dependent under a pre-1985 divorce or separation agreement.

If you qualify for head of household only because you meet the tests in 4(a) or 4(b) above, enter that child's name in the space provided on line 4 of Form 1040 or Form 1040A.

A foster child or a child placed with you for adoption may be claimed as an exemption under certain conditions. See *Foster Child or Adult*, later.

Temporary absences. You are considered to occupy the same household despite the temporary absence due to special circumstances of either yourself or the other person. Temporary absences due to special circumstances include those due to illness, education, business, vacation, and military service. It must be reasonable to assume that you or the other person will return to the household after the temporary absence, and you must continue to maintain a household in anticipation of the return.

Death or birth. If the dependent who qualifies you to use head of household filing status is born or dies during the year, you still may be able to claim that filing status. You must have provided more than half the cost of keeping up a home, which was the dependent's main home for more than half the year, or, if less, the period during which your dependent lived.

Example. You are unmarried. Your mother lived in an apartment by herself. She died on September 2, 1989. The cost of the upkeep of her apartment for the year until her death was $8,000. You paid $4,000 and your brother paid $2,000. Your brother made no other payments towards your mother's support. Your mother had no income. Since you paid more than half the cost of keeping up the apartment for your mother from January 1, 1989, until her death, and she qualifies as your dependent, you may file as a head of household.

Nonresident alien spouse. You are considered unmarried for head of household purposes if your spouse was a nonresident alien at any time during the year, and you do not choose to treat your nonresident spouse as a resident alien. Your spouse is not considered your relative. You must have another qualifying relative and meet the other tests to be eligible to file as a head of household. However, you are considered married if you have chosen to treat your spouse as a resident alien. See Publication 519.

Dual-status and nonresident alien taxpayers may not claim head of household status.

Qualifying Widows and Widowers

If your spouse died in 1989, you may use married filing jointly as your filing status for 1989 if you would otherwise qualify. See *Married Filing Jointly* earlier.

If your spouse died in 1987 or 1988, and you have not remarried, you may be able to use ***Qualifying widow(er)*** as your filing status for 1989. You must, however, meet all of the following tests.

- You were entitled to file a joint return with your spouse for the year your spouse died (it does not matter whether you actually filed a joint return).
- You did not remarry before the end of the tax year.
- You have a child, stepchild, adopted child, or foster child who qualifies as your dependent for the year.
- You paid more than half the cost of keeping up your home, which is the main home of that child for the entire year except for temporary absences. See *Temporary absences*, discussed earlier under *Head of Household*.

Example. John Doe's wife died in 1987. John has not remarried. He has continued during 1988 and 1989 to keep up a home for himself and his dependent child. For 1987 he was entitled to file a joint return for himself and his deceased wife. For 1988 and 1989 he may file as qualifying widower because he is a widower with a dependent child. After 1989 he may file as head of household if he qualifies.

This filing status entitles you to use joint return tax rates, the highest standard deduction amount, and other deductions and tax credits. (Note: you can only claim the standard deduction if you do not itemize deductions.) It does not authorize you to file a joint return.

Death or birth. If the dependent who qualifies you to use qualifying widow(er) filing status is born or dies during the year, you still may be able to claim that filing status. You must have provided more than half the cost of keeping up a home, which was the dependent's main home, during the entire part of the year he or she was alive.

Figuring your tax. If your spouse died in 1987 or 1988 and you meet the four tests above, you can file as a qualifying widow or widower on your 1989 tax return.

Indicate your filing status by checking the box on line 5 of either Form 1040A or Form 1040 (you may not file Form 1040EZ). Write the year your spouse died in the space provided on line 5 of Form 1040A or Form 1040. You figure your tax by using the *Married filing jointly* column of the Tax Table or *Schedule Y–1* of the Tax Rate Schedules.

Keeping Up a Home

You are keeping up a home only if you pay ***more than half*** the cost of its upkeep. You may determine whether you paid more than half the cost of keeping up a home by using the worksheet *Cost of Maintaining a Household*, which follows at the end of this discussion.

Include such costs as rent, mortgage interest, taxes, insurance on the home, repairs, utilities, and food eaten in the home.

Do not include the cost of clothing, education, medical treatment, vacations, life insurance, transportation, the rental value of a home you own, or the value of your services or those of a member of your household.

Include or exclude these expenses only to figure whether you are keeping up a home. Do not claim them as deductions on your return unless they are otherwise deductible. See *Support Test* under *Exemptions*, later, for expenses you can use to figure if a person qualifies as your dependent.

State AFDC (Aid to Families with Dependent Children) payments you use to keep up your home do not count as amounts you paid. Include these amounts in the total cost of keeping up your home to figure if you paid more than half.

Cost of Maintaining a Household

	Amount You Paid	Total Cost
Property taxes	$_____	$_____
Mortgage interest expense	_____	_____
Rent	_____	_____
Utility charges	_____	_____
Upkeep and repairs	_____	_____
Property insurance	_____	_____
Food consumed on the premises	_____	_____
Other household expenses	_____	_____
Totals	$_____	$_____
Minus total amount you paid		($_____)
Amount others paid		$_____

If you paid more than others paid, you meet the requirement of maintaining a household for head of household filing status.

Exemptions

Exemptions reduce your taxable income. Each exemption you claim in 1989 is worth $2,000. If you are entitled to two exemptions for 1989, you would deduct $4,000 ($2,000 × 2). Beginning in 1990, the amount of the exemption will be adjusted for inflation.

There are two types of exemptions: personal exemptions and dependency exemptions. While they are both worth the same amount, different rules, discussed later, apply to each type.

You usually may claim exemptions for yourself, your spouse, and each person you can claim as a dependent. If you are entitled to claim an exemption for a dependent, such as your child, on your tax return, that dependent cannot claim a personal exemption on his or her own tax return.

You may lose the benefit of part or all of your exemptions if you have a high taxable income. If your taxable income is more than $93,130, see *Phaseout of Exemptions* later, for more information.

How to claim exemptions. How you claim an exemption on your tax return depends on which form you file.

If you file Form 1040EZ because you are single, you are allowed an exemption for yourself, unless someone else can claim your exemption. The exemption amount is combined with the standard deduction and entered on line 4.

If you file Form 1040A, complete lines 6a through 6e. Follow the Form 1040A instructions. The total number of exemptions you can claim is the total in the box on line 6e. Also complete line 18 by multiplying the number in the box on line 6e by $2,000.

If you file Form 1040, claim your exemptions by completing lines 6a through 6e. Follow the instructions for your Form 1040. On line 36, multiply your total exemptions, as shown in the box on line 6e, by $2,000 and enter the result.

If you are a U.S. citizen or resident, a U.S. national, or a resident of Canada or Mexico, you may take any of the exemptions for which you qualify.

Nonresident alien rules. Generally, if you are a nonresident alien (other than a resident of Canada or Mexico, or certain residents of Japan or Korea), you may claim only one personal exemption. You may not claim exemptions for a spouse or dependents.

These restrictions do not apply if you are a nonresident alien married to a citizen or resident of the United States and have chosen to be treated as a resident of the United States.

For more information on exemptions if you are a nonresident alien, see Publication 519, *U.S. Tax Guide for Aliens.*

Dual-status taxpayers. If you have been both a nonresident alien and a resident alien in the same tax year, you should get Publication 519 for information on determining your exemptions.

Personal Exemptions

You are generally allowed one exemption for yourself, and if you are married, one exemption for your spouse. These are called personal exemptions.

Your Own Exemption

You may take one exemption for yourself unless you can be claimed as a dependent by another taxpayer. If another taxpayer is entitled to claim you as a dependent, you may not take an exemption for yourself. This is true even if the other taxpayer does not actually claim your exemption.

Your Spouse's Exemption

Your spouse is never considered your dependent. You are permitted one exemption for your spouse only because you are married.

Joint return. If your spouse had ***any gross income,*** you may claim his or her exemption only if you file a joint return.

Separate return. If you file a separate return, you may claim the exemption for your spouse only if your spouse had ***no gross income*** and was not the dependent of another taxpayer. This is true even if your spouse is a nonresident alien.

Dependent of another. If another taxpayer is entitled to claim your spouse as a dependent, you cannot claim an exemption for your spouse. This is true even if the other taxpayer does not actually claim your spouse's exemption.

If your spouse died during the year, you may still generally claim your spouse's exemption under the rules just explained in *Joint return* and *Separate return.*

If you remarried during the year, you may not take an exemption for your deceased spouse.

If you are a surviving spouse without gross income and you remarry, you may be claimed as an exemption on both the final separate return of your deceased spouse and the separate return of your new spouse whom you married in the same year. If you file a joint return with your new spouse, you may be claimed as an exemption only on that return.

If you obtained a final decree of divorce or separate maintenance by the end of the year, you may not take your former spouse's exemption. This rule applies even if you provided all of your former spouse's support.

Exemptions for Dependents

You are allowed one exemption of $2,000 for each person you can claim as a dependent in 1989. This is called a dependency exemption.

A person is your dependent if all ***five*** of the dependency tests, discussed below, are met. You may take an exemption for your dependent even if your dependent files a return. But that dependent cannot claim his or her personal exemption if you are entitled to do so. However, see *Joint Return Test,* later.

If your child was born alive during the year, and the dependency tests are met, you may take the full exemption. The child is considered to have lived with you for 12 months. This is true even if the child lived only for a moment. Whether your child was born alive depends on state or local law. There must be proof of a live birth shown by an official document, such as a birth certificate. You may not claim an exemption for a stillborn child.

If your dependent died during the year and otherwise qualified as your dependent, you may take his or her exemption. The dependent is considered to have lived with you for 12 months.

Example. Your dependent mother died on January 15. You may take a full exemption for her on your return.

Housekeepers, maids, or servants who work for you may not be claimed as dependents.

Dependency Tests

The following five tests must be met for a person to be your dependent:

- Member of Household or Relationship Test
- Citizenship Test
- Joint Return Test
- Gross Income Test
- Support Test

Member of Household or Relationship Test

To meet this test, a person must live with you for the entire year as a member of your household or be related to you, as discussed later.

Temporary absences. You are considered to occupy the same household despite the temporary absence due to special circumstances of either yourself or the other person. Temporary absences due to special circumstances include those due to illness, education, business, vacation, and military service.

If the person is placed in a nursing home for an unspecified period of time to receive constant medical care, the absence is considered temporary.

Death or birth. A person who died during the year, but was a member of your household until death, will meet the member of household test. The same is true for a child who was born during the year and was a member of your household for the rest of the year, or would have been a member except for any required hospital stay following birth.

A person does not meet the member of household test if at any time during your tax year the relationship between you and that person violates local law.

A person related to you in any of the following ways need not live with you or be a member of your household to meet this test.

- Your child, grandchild, great grandchild, etc. (a legally adopted child is considered your child),
- Your stepchild,
- Your brother, sister, half brother, half sister, stepbrother, or stepsister,
- Your parent, grandparent, or other direct ancestor, but not foster parent,
- Your stepfather or stepmother,
- A brother or sister of your father or mother,
- A son or daughter of your brother or sister,
- Your father-in-law, mother-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law.

Any of the above relationships that were established by marriage are not ended by death or divorce.

Adoption. Before legal adoption, a child is considered to be your child if he or she was placed with you for adoption by an authorized agency and was a member of your household. If the child was not placed with you by such an agency, the child will meet this test only if he or she was a member of your household for your entire tax year.

Foster child. A foster child must live with you as a member of your household for the entire year to qualify as your dependent. See *Foster Child or Adult,* later in this publication.

Cousin. Your cousin will meet this test only if he or she lives with you as a member of your household for the entire year. A cousin is a descendant of a brother or sister of your father or mother.

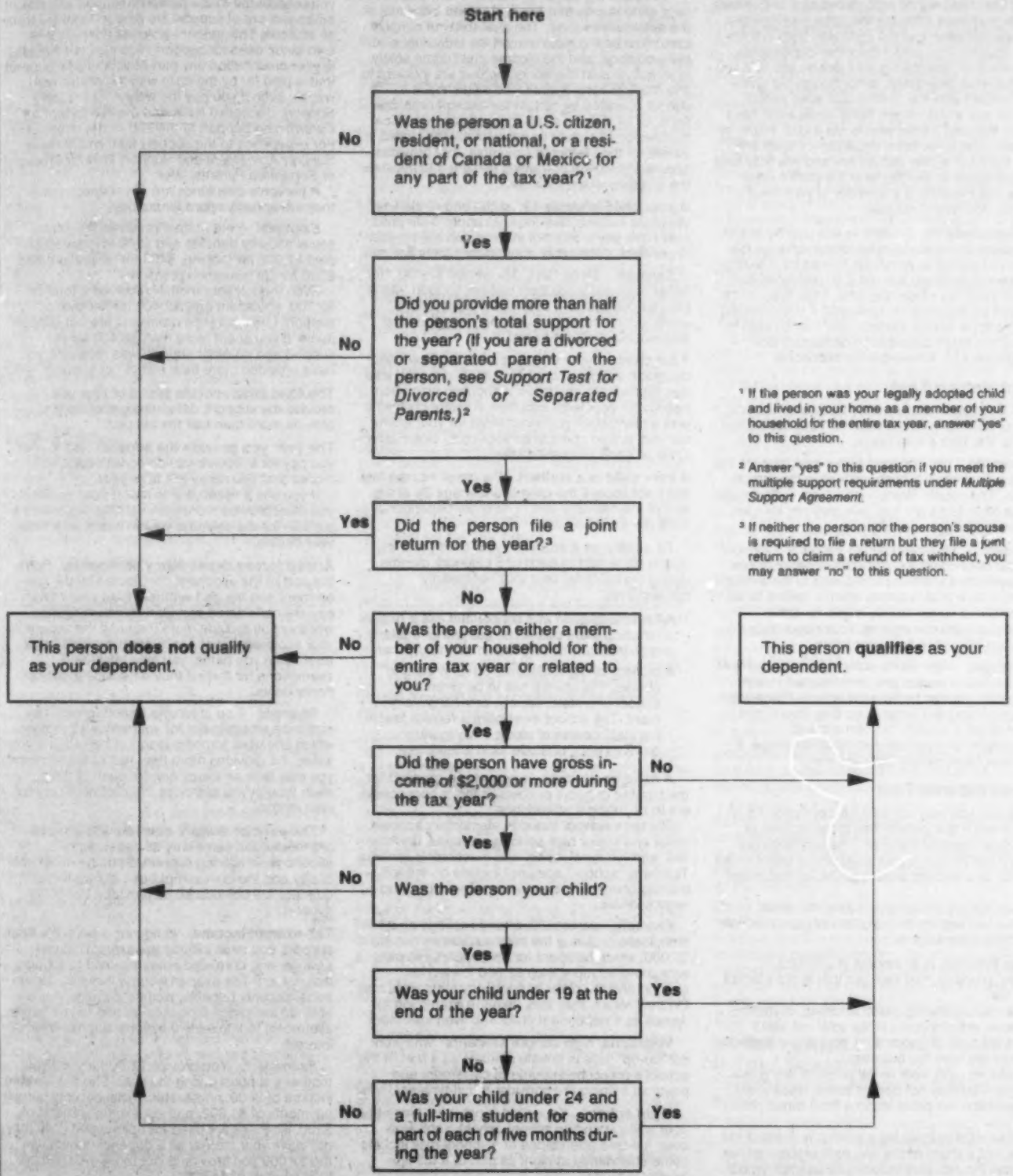
Joint return. If you file a joint return, you need not show that a dependent is related to both you and your spouse. And you need not show that a dependent is related to the spouse who provides support.

For example, your spouse's uncle who receives more than half his support from you may be your dependent, even though he does not live with you. If you and your spouse file ***separate returns,*** your spouse's uncle can be your dependent only if he is a member of your household and lives with you for your entire tax year.

Citizenship Test

To meet the citizenship test, a person must be a U.S. citizen, resident, or national, or a resident of

Who May Qualify as Your Dependent?


Start here
Was the person a U.S. citizen, resident, or national, or a resident of Canada or Mexico for any part of the tax year?[1]
No
Yes
Did you provide more than half the person's total support for the year? (If you are a divorced or separated parent of the person, see *Support Test for Divorced or Separated Parents.*)[2]
No
Yes
Did the person file a joint return for the year?[3]
Yes
No
Was the person either a member of your household for the entire tax year or related to you?
No
This person **does not** qualify as your dependent.
Yes
Did the person have gross income of $2,000 or more during the tax year?
No
Yes
Was the person your child?
No
Yes
Was your child under 19 at the end of the year?
Yes
No
Was your child under 24 and a full-time student for some part of each of five months during the year?
No
Yes
This person **qualifies** as your dependent.

[1] If the person was your legally adopted child and lived in your home as a member of your household for the entire tax year, answer "yes" to this question.

[2] Answer "yes" to this question if you meet the multiple support requirements under *Multiple Support Agreement.*

[3] If neither the person nor the person's spouse is required to file a return but they file a joint return to claim a refund of tax withheld, you may answer "no" to this question.

Canada or Mexico for some part of the calendar year in which your tax year begins.

Children usually are citizens or residents of the country of their parents.

If you were a U.S. citizen when your child was born, the child may be recognized as a U.S. citizen for tax purposes although the other parent was a nonresident alien and the child was born in a foreign country. If so, and if the other dependency tests are met, the child is your dependent and you may take the exemption, even though the child lives abroad with the nonresident alien parent.

If you are a U.S. citizen living abroad and have legally adopted a child who is not a U.S. citizen or resident, and if the other dependency tests are met, the child is your dependent and you may take the exemption if your home is the child's main home and the child is a member of your household for your entire tax year.

Foreign students brought to this country under a qualified international education exchange program and placed in American homes for a temporary period generally are not U.S. residents, and do not meet the citizenship test. They may not be claimed as dependents. However, if you provided a home for a foreign student, you may be able to take a charitable contribution deduction. See Publication 526, *Charitable Contributions.*

Joint Return Test

Even if the other dependency tests are met, you are not allowed an exemption for your dependent if he or she files a joint return.

Example. You supported your daughter for the entire year while her husband was in the armed forces. The couple files a joint return. Even though all the other tests are met, you may not take an exemption for your daughter.

Exception. You may take an exemption for your married dependent if neither the dependent nor the dependent's spouse is required to file a return, but they file a joint return to claim a refund of tax withheld and no tax liability exists for either spouse on separate returns. Your dependent may not claim his or her own exemption.

Example. Your son and his wife each had less than $1,000 of wages and no unearned income. Neither is required to file a tax return. Taxes were withheld from their income, so they filed a joint return to get a refund. You are allowed exemptions for your son and daughter-in-law, if the other dependency tests are met.

Gross Income Test

Generally, you may not take an exemption for a dependent if that person had gross income of $2,000 or more for the year. This test does not apply if the person is your child and is either under age 19, or a student under age 24, as discussed later.

If you file on a fiscal year basis, the gross income test applies to the calendar year in which your fiscal year begins.

Gross income is all income in the form of money, property, and services that is not exempt from tax.

In a manufacturing, merchandising, or mining business, gross income is the total net sales minus the cost of goods sold, plus any miscellaneous income from the business.

Gross receipts from rental property are gross income. You may not deduct taxes, repairs, etc., to determine the gross income from rental property.

Gross income includes a partner's share of the gross, not a share of the net, partnership income.

Gross income also includes all unemployment compensation and certain scholarships. Scholarships received by degree candidates, which are used for tuition and fees, and books and equipment required for particular courses, are not included in gross income. For more information, see Publication 520, *Scholarships and Fellowships.*

Tax-exempt income, such as certain social security payments, is not included in gross income.

Gross income does not include income received by a permanently and totally disabled individual at a sheltered workshop. The availability of medical care must be the main reason the individual is at the workshop, and the income must come solely from activities at the workshop that are incident to this medical care. A sheltered workshop is a school operated by certain tax-exempt organizations, or by a state, a U.S. possession, a political subdivision of a state or possession, the United States, or the District of Columbia, that provides special instruction or training designed to alleviate the disability of the individual.

If your child is under 19 at the end of the year, the gross income test does not apply. Your child may have any amount of income and still be your dependent, if the other dependency tests are met.

Example. Marie Grey, 18, earned $2,400. Her father provided more than half her support. Marie may be claimed as a dependent because the gross income test does not apply and the other dependency tests were met.

Your child is your son, stepson, daughter, stepdaughter, a legally adopted child, and a child who was placed with you by an authorized placement agency for your legal adoption. A foster child who was a member of your household for your entire tax year is also considered your child. See *Foster Child or Adult,* discussed later.

If your child is a student, the gross income test does not apply if the child is under age 24 at the end of the calendar year. The other dependency tests must still be met.

To qualify as a student your child must be, during some part of each of 5 calendar months during the calendar year (not necessarily consecutive):

- A full-time student at a school that has a regular teaching staff, course of study, and regularly enrolled body of students in attendance, or
- A student taking a full-time, on-farm training course. The course has to be given by a school or a state, county, or local government. The school must have a regular teaching staff, course of study, and regularly enrolled body of students in attendance.

A full-time student is one who is enrolled for the number of hours or courses the school considers to be full-time attendance.

The term ***school*** includes elementary schools, junior and senior high schools, colleges, universities, and technical, trade, and mechanical schools. The term "school" does not include on-the-job training courses, correspondence schools, and night schools.

Example. James, 22, attends college as a full-time student. During the summer, James earned $2,000, which he spent for his support. His parents provided more than $2,000 toward his support and the other dependency tests were met. On their return, they may take the exemption for James as a dependent child who lived with them.

Vocational high school students who work on "co-op" jobs in private industry as a part of the school's prescribed course of classroom and practical training are considered full-time students.

Night school. Your child is not a full-time student while attending school only at night. However, full-time attendance at a school may include some attendance at night as part of a full-time course of study.

Correspondence and employee training courses. Your child does not qualify as a full-time student by taking correspondence courses, employee training courses, or similar programs.

Support Test

You must provide more than half of a person's total support during the calendar year to meet the support test. You figure whether you have provided more than half by comparing the amount you contributed to the person's support with the entire amount of support the person received from all sources. This amount includes the person's own funds used for support. You may not include in your contribution any part of your child's support that is paid for by the child with the child's own wages, even if you pay the wages. See *Total Support,* discussed later, and the *Worksheet for Determining Support* at the end of this publication. For exceptions to the support test, see *Multiple Support Agreement* and *Support Test for Divorced or Separated Parents,* later.

A person's own funds are not support unless they are actually spent for support.

Example. Your mother received $2,400 in social security benefits and $300 in interest. She paid $2,000 for lodging, $400 for recreation, and $300 for life insurance premiums.

Even though your mother received a total of $2,700, she spent only $2,400 for her own support. Life insurance premiums are not support items. If you spent more than $2,400 for her support and no other support was received, you have provided more than half of her support.

The total cost, not the period of time you provide the support, determines whether you provide more than half the support.

The year you provide the support is the year you pay for it, even if you do so with borrowed money that you repay in a later year.

If you use a fiscal year to report your income, you must provide more than half the dependent's support for the calendar year in which your fiscal year begins.

Armed forces dependency allotments. Both the part of the allotment contributed by the government and the part withheld from your military pay are considered provided by you in figuring whether you provide more than half the support. If your allotment is used to support persons other than those you name, you may take the exemptions for them if they otherwise qualify as dependents.

Example. You are in the armed forces. You authorize an allotment for your widowed mother which she uses for the support of herself and your sister. If it provides more than half of their support, you may take an exemption for each of them, even though you authorize the allotment only for your mother.

Tax-exempt military quarters allowances are treated the same way as dependency allotments in figuring support. Both the allotment of pay and the tax-exempt basic allowance for quarters are considered as provided by you for support.

Tax-exempt income. In figuring a person's total support, you must include tax-exempt income, savings, and borrowed amounts used to support that person. Tax-exempt income includes certain social security benefits, welfare benefits, nontaxable life insurance proceeds, armed forces family allotments, nontaxable pensions, and tax-exempt interest.

Example 1. You provide $2,000 toward your mother's support during the year. She has taxable income of $800, nontaxable social security benefit payments of $1,800, and tax-exempt interest of $200. All these are used for her support. You may not claim your mother as a dependent because the $2,000 you provide is not more than half her total support of $4,600.

Example 2. Your daughter takes out a student loan of $2,500 and uses it to pay her college tuition. She is personally responsible for the loan. You provide $2,000 toward her total support. You

may not claim your daughter as a dependent because you provide less than half her support.

Social security benefit payments. If a husband and wife each receive payments that are paid by one check made out to both of them, half the total paid is considered to be for the support of each spouse, unless they can show otherwise.

If a child receives social security benefits and uses them toward his or her own support, the payments are considered as provided by the child.

State benefit payments (welfare, food stamps, housing, etc.) based on need are considered as support provided by the state, unless it is shown otherwise. For example, AFDC (Aid to Families with Dependent Children) is not support provided by the parent. It is support provided by the state.

When a relative is in a home for the aged or other institution supported by a state, religious, fraternal, or charitable organization, you must compare the amount spent by the agency to support the relative with the amount you spent to determine if you provided more than half of the support. If you make a lump-sum advance payment to a home for the aged to take care of your relative for life and the payment is based on that person's life expectancy, the amount of your support each year is the lump-sum payment divided by the relative's life expectancy. Your support also includes any other amounts that you provided during the year.

Total Support

To figure if you provided more than half the support of a person, you must first determine the total support provided for that person. Total support includes amounts spent to provide food, lodging, clothing, education, medical and dental care, recreation, transportation, and similar necessities.

Generally, the amount of an item of support is the amount of the expense incurred in providing that item. Expenses that are not directly related to any one member of a household, such as the cost of food for the household, must be divided among the members of the household. If the item is property or lodging, the amount of such item is its fair rental value.

Example 1. Grace Brown, mother of Mary Miller, lives with Frank and Mary Miller and their two children. Grace gets a fully taxable pension of $1,500, which she spends for clothing and recreation. Grace has no other income, so she is not required to file a tax return. Frank and Mary's total food expense for the household is $5,000. They pay Grace's medical and drug expenses of $300. The fair rental value of the lodging provided for Grace is $960 a year, based on the cost of similar rooming facilities. Figure Grace's total support as follows:

Fair rental value of lodging	$ 960
Clothing and recreation	1,500
Medical expenses	300
Share of food (1/5 of $5,000)	1,000
Total support	$3,760

Because the support Frank and Mary provide ($960 lodging + $300 medical expenses + $1,000 food = $2,260) is more than half of Grace's $3,760 total support, and Grace meets the other dependency tests, they may claim her as a dependent by entering the necessary information on their return.

Example 2. Your parents live with you, your spouse, and your two children in a house you rent. The fair rental value of their share of the lodging is $2,000 a year. Your father receives a nontaxable pension of $4,200, which he spends equally for items of support, such as clothing, transportation, and recreation for your mother and himself. Your total food expense for the household is $6,000. Your heat and utility bills amount to $1,200. Your mother has hospital and medical expenses of $600, which you pay during the year. Figure your parents' total support as follows:

	Support provided	
	Father	Mother
Fair rental value of lodging	$1,000	$1,000
Pension spent for their support	2,100	2,100
Share of food (1/6 of $6,000)	1,000	1,000
Medical expenses for mother		600
Parents' total support	$4,100	$4,700

Since you provided different amounts to each parent, you must figure the dependency status of each parent separately. You provide $2,000 ($1,000 lodging, $1,000 food) of your father's total support of $4,100 — less than half. You provide $2,600 to your mother ($1,000 lodging, $1,000 food, $600 medical) — more than half of her total support of $4,700. You may claim your mother as a dependent, but not your father. Heat and utility costs are included in the fair rental value of the lodging, so they are not considered separately.

Lodging is the fair rental value of the room, apartment, or house in which the person lives. It includes a reasonable allowance for the use of furniture and appliances, and for heat and other utilities. Fair rental value is used in place of rent, or taxes, interest, depreciation, paint, insurance, utilities, cost of furniture and appliances, etc. In some cases, fair rental value may be equal to the rent paid.

The fair rental value is the amount you could reasonably expect to receive from a stranger for the same kind of lodging.

If you are considered to provide the total lodging, determine the fair rental value of the room the person uses, or a share of the fair rental value of the entire dwelling if the person has use of your entire home. If you do not provide the total lodging, the total fair rental value must be divided depending on how much of the total lodging you provide. If you provide only a part and the person supplies the rest, the fair rental value must be divided between you according to the amount each of you provides.

Example. Your parents live rent-free in a house you own. It has a fair rental value of $5,400 a year furnished, which includes a fair rental value of $3,600 for the house and $1,800 for the furniture. This does not include heat and utilities. The house is completely furnished with furniture belonging to your parents. You pay $600 for their utility bills. Utilities are not usually included in rent for houses in the area where your parents live. Therefore, you consider the total fair rental value of the lodging to be $6,000 ($3,600 fair rental value of the unfurnished house, $1,800 allowance for the furnishings provided by your parents, and $600 cost of utilities) of which you are considered to provide $4,200 ($3,600 + $600).

Person living in his or her own home. The total fair rental value of a person's home is considered support contributed by that person.

If you help to keep up the home by paying interest on the mortgage, real estate taxes, fire insurance premiums, ordinary repairs, or other items directly related to the home, or give someone cash to pay those expenses, reduce the total fair rental value of the home by those amounts in figuring that person's own contribution.

Example. You provide $3,000 cash for your father's support during the year. He lives in his own home, which has a fair rental value of $3,600 a year. He uses $800 of the money you give him to help pay his real estate taxes. Your father's contribution for his own lodging is $2,800 ($3,600 minus $800 for taxes).

If you live with a person rent-free in his or her home, you must reduce the amount you provide for support by the fair rental value of lodging he or she provides you.

Property provided as support is measured by its fair market value.

Capital expenses. Capital items, such as furniture, appliances, and cars that are bought for a person during the year, may be included in total support under certain circumstances.

The following examples show when a capital item is or is not support.

Example 1. You buy a $200 power lawn mower for your 13-year-old child. The child is given the duty of keeping the lawn trimmed. Because a lawn mower is ordinarily an item you buy for personal and family reasons that benefits all members of the household, you cannot include the cost of the lawn mower in the support of your child.

Example 2. You buy a $150 television set as a birthday present for your 12-year-old child. The television set is placed in your child's bedroom. You include the cost of the television set in the support of your child.

Example 3. You pay $5,000 for a car and register it in your name. You and your 17-year-old child use the car equally. Because you own the car and do not give it to your child but merely let your child use it, you cannot include the cost of the car in your child's total support. However, you can include in your child's support your out-of-pocket expenses of operating the car for the benefit of your child.

Example 4. Your 17-year-old child, using personal funds, buys a car for $4,500. You provide all the rest of your child's support — $4,000. Since the car is bought and owned by your child, the car's fair market value ($4,500) must be included in your child's support. The $4,000 support you provide is less than half of your child's total support of $8,500. You cannot claim your child as a dependent.

Medical insurance premiums include premiums you pay for supplementary Medicare coverage. These are included in the total support you provide.

Medical insurance benefits, including basic and supplementary Medicare benefits, are not part of support.

Amounts veterans receive under the GI Bill for tuition payments and allowances while they attend school are included in total support.

Example. During the year your son receives $2,200 from the government under the GI Bill. He uses this amount for his education. You provide the rest of his support — $2,000. Because GI benefits are included in total support, your son is not your dependent.

Other items may be considered as support depending on the facts in each case. For example, if you pay someone to provide child care or disabled dependent care, you may include these payments as support, even if you claim a credit for them. For information on the credit, see Publication 503, *Child and Dependent Care Expenses.*

Do Not Include in Total Support

The following items are not included in total support:

- Federal, state, and local income taxes paid by persons from their own income.
- Social security taxes paid by persons from their own income.
- Life insurance premiums.
- Funeral expenses.
- Scholarships received by your child if your child is a full-time student. (If a child is committed

to a state training school because of antisocial behavior, the value of the room, board, and education provided is not a scholarship. It must be included in support.)

Survivors' and Dependents' Educational Assistance payments used for the support of the child who receives them.

Phaseout of Exemptions

The amount you can claim as a deduction for exemptions is phased out once your taxable income goes above a certain level for your filing status. These levels are as follows:

Filing Status	Taxable Income Subject to Exemption Phaseout
Single	$ 93,130
Married filing jointly	155,320
Married filing separately	117,895
Head of household	128,810
Qualifying widow(er)	155,320

If your taxable income is more than the amount shown in the above table, continue to deduct your exemptions on Form 1040 as usual. Compute the exemption phaseout when you figure your tax using the *Tax Rate Schedules*.

Caution: As this publication was being prepared for print, Congress was considering legislation that would affect how you figure the phaseout of your exemption(s) if you have long-term capital gains from certain sales or exchanges of property after September 13, 1989.

For information on this legislation, see Publication 550, *Investment Income and Expenses*, or Publication 553, *Highlights of 1989 Tax Changes*.

Phaseout of exemptions worksheet. You may use the following worksheet to figure your tax for 1989.

Exemption Phaseout Worksheet

1. If your filing status is:
   - Single, enter $26,076.40
   - Head of household, enter $36,066.80
   - Married filing jointly or Qualifying widow(er), enter $43,489.60
   - Married filing separately, enter $35,022.35

   _____
2. Enter your taxable income (1989 Form 1040, line 37): _____
3. Enter the amount shown below for your filing status:
   - Single, enter $93,130
   - Head of household, enter $128,810
   - Married filing jointly or Qualifying widow(er), enter $155,320
   - Married filing separately, enter $117,895

   _____
4. Subtract line 3 from line 2. Enter the result. (The result should be over zero. If it is not, use the Tax Rate Schedules to figure your tax.) _____
5. Multiply the amount on line 4 by **28% (.28)**. Enter the result. _____
6. Multiply the amount on line 4 by **5% (.05)**. Enter the result. _____
7. Multiply **$560** by the number of exemptions you claim on your return. (If you are married filing separately, see the ***Note*** below.) Enter the result. _____
8. Compare the amounts on lines 6 and 7. Enter the ***smaller*** of the two amounts. _____
9. Tax: add lines 1, 5, and 8. This is your tax. _____

Note: If married filing separately and you did not claim an exemption for your spouse, multiply $560 by the total number of exemptions claimed (Form 1040, line 6e). Add $560 to the result and enter the total on line 7 above.

Example. Janet files as head of household and claims three exemptions. She has taxable income of $145,590. Because Janet's taxable income is more than the amount shown for her filing status ($128,810), she must figure her tax by phasing out her exemptions. The worksheet below shows how she arrives at her tax of $41,604. She enters this amount on her tax return.

Exemption Phaseout Worksheet

1.	If your filing status is: • Single, enter $26,076.40 • Head of household, enter $36,066.80 • Married filing jointly or Qualifying widow(er), enter $43,489.60 • Married filing separately, enter $35,022.35	$ 36,067
2.	Enter your taxable income (1989 Form 1040, line 37):	145,590
3.	Enter the amount shown below for your filing status: • Single, enter $93,130 • Head of household, enter $128,810 • Married filing jointly or Qualifying widow(er), enter $155,320 • Married filing separately, enter $117,895	128,810
4.	Subtract line 3 from line 2. Enter the result. (The result should be over zero. If it is not, use the Tax Rate Schedules to figure your tax.)	16,780
5.	Multiply the amount on line 4 by **28% (.28)**. Enter the result.	4,698
6.	Multiply the amount on line 4 by **5% (.05)**. Enter the result.	839
7.	Multiply **$560** by the number of exemptions you claim on your return. (If you are married filing separately, see ***Note*** below.) Enter the result.	1,680
8.	Compare the amounts on lines 6 and 7. Enter the ***smaller*** of the two amounts.	839
9.	Tax: add lines 1, 5, and 8. This is your tax.	$ 41,604

Note: If married filing separately and you did not claim an exemption for your spouse, multiply $560 by the total number of exemptions claimed (Form 1040, line 6e). Add $560 to the result and enter the total on line 7 above.

Social Security Numbers for Dependents

If you claim a dependent who is at least ***2 years old*** by the end of your tax year and is a U.S. citizen or resident, or a resident of Canada or Mexico, you must list the dependent's social security number (SSN) on your Form 1040 or Form 1040A. If you do not list the dependent's SSN when required or if you list an incorrect SSN, you may be subject to a $5 penalty.

If a person whom you expect to claim as a dependent on your return does not have a SSN, either you or that person should apply for a SSN as soon as possible. The Internal Revenue Service does not issue social security numbers. Apply for a SSN by filing Form SS-5 with the Social Security Administration. Information about applying for a SSN and Form SS-5 is available at your local Social Security Administration office.

Dependents living in Mexico or Canada. Taxpayers who claim dependents living in Mexico or Canada must have SSNs for these dependents.

A dependent living in **Mexico** may apply for a SSN at the U.S. Embassy in Mexico City or at a foreign service post in Ciudad Juarez, Guadalajara, Hermosillo, Matamoros, Mazatlan, Monterrey, Merida, or Tijuana. If you claim a dependent who lives in Mexico, enter "F" instead of a number in (5) of line 6c of your Form 1040 or Form 1040A.

A dependent living in **Canada** may apply for a SSN at the American embassy in Ottawa or at a consulate. Those living near the U.S. border may also apply at a Social Security Administration office in a nearby American city. If you claim a dependent who lives in Canada, enter "F" instead of a number in (5) of line 6c of your Form 1040 or Form 1040A.

Required documents. When applying for a SSN, your dependent must have at least two documents showing proof of his or her age, identity, and citizenship. These documents must be originals or certified copies.

Multiple Support Agreement

Sometimes no one provides more than half the support of a person. Instead, two or more persons, each of whom would be able to take the exemption but for the support test, together provide more than half the person's support.

When this happens, you may agree that any one of you who individually provides more than 10% of the person's support, ***but only one,*** may claim an exemption for that person. Each of the others must sign a written statement agreeing not to claim the exemption for that year. The statements must be filed with the income tax return of the person who claims the exemption. **Form 2120,** *Multiple Support Declaration*, is used for this purpose. An example of a completed Form 2120 is shown later.

Example 1. You, your sister, and your two brothers provide the entire support of your mother for the year. You provide 45%, your sister 35%, and your two brothers each provide 10%. Either you or your sister may claim an exemption for your mother. The other must sign a Form 2120 or a written statement agreeing not to take an exemption for her. Because neither brother provides more than 10% of the support, neither of them can take the exemption. Your brothers do not have to sign a Form 2120 or the statement.

Example 2. You and your brother each provide 20% of your mother's support for the year. The remaining 60% of her support is provided equally by two persons who are not related to her. She does not live with them. Because more than half her support is provided by persons who cannot claim her as a dependent, no one may take the exemption.

Example 3. Your father lives with you and receives 25% of his support from social security, 40% from you, 24% from his brother, and 11% from a friend. Either you or your uncle may take the exemption for your father. A Form 2120 or a written statement from the one not taking the exemption must be attached to the return of the one who takes the exemption.

Support Test for Divorced or Separated Parents

The support test for a child of divorced or separated parents is based on special rules that apply only if:

1) The parents are divorced or legally separated under a decree of divorce or separate maintenance, or separated under a written separation agreement, or lived apart at all times during the last 6 months of the calendar year, and

2) One or both parents provide more than half the child's total support for the calendar year, and

3) One or both parents have custody of the child for more than half the calendar year.

Child is defined earlier under the *Gross Income Test.*

Exceptions. This discussion does not apply in any of the following situations:

- A third party, such as a relative or friend, provides half or more of the child's support,
- The child is in the custody of a person other than the parents for half the year or more,
- The support of the child is determined under a multiple support agreement, as discussed earlier,
- The parents are separated under a written separation agreement, or are living apart, but they file a joint return for the tax year, or
- The child is not the child of the divorced or separated parents. Support of other persons is determined under the regular method discussed previously under *Support Test.*

Custodial parent. The parent who has custody of the child for the greater part of the year is generally treated as the parent who provides more than half the child's support. It does not matter whether that parent actually provided more than half the support. However, see *Noncustodial parent,* later.

Custody is usually determined by the terms of the most recent decree of divorce or separate maintenance, or a later custody decree. If there is no decree, use the written separation agreement. If neither a decree nor agreement establishes custody, then the parent who has the physical custody of the child for the greater part of the year is considered to have custody of the child. This also applies if the validity of a decree or agreement awarding custody is uncertain because of legal proceedings pending on the last day of the calendar year.

If the parents are divorced or separated during the year and had joint custody of the child before the separation, the parent who has custody for the greater part of the rest of the year is considered to have custody of the child for the tax year.

Example 1. Under the terms of your divorce, you have custody of your child for 10 months of the year. Your former spouse has custody for the other 2 months. You and your former spouse provide the child's total support. You are considered to have provided more than half the support of the child. However, see *Noncustodial parent.*

Example 2. Assume that in Example 1 your aunt gives $2,000 of the $3,100 necessary to support your child. Neither you nor your former spouse may claim the child as a dependent, because the two of you did not provide more than half the child's support.

Noncustodial parent. The noncustodial parent will be treated as providing more than half of the child's support if:

- The custodial parent signs a written declaration that he or she will not claim the exemption for the child and the noncustodial parent attaches this written declaration to his or her return, or
- A decree or agreement executed before 1985 provides that the noncustodial parent is entitled to the exemption and he or she provides at least $600 for the child's support during the year, unless the pre-1985 decree or agreement is modified after 1984 to specify that this provision will not apply.

Example. Under the terms of your 1982 divorce decree, your former spouse has custody of your child. The decree specifically states that you are entitled to the exemption. You provide at least $600 in child support during the calendar year. You are considered to have provided more than half the child's support.

Written declaration. The custodial parent should use **Form 8332,** *Release of Claim to Exemption for Child of Divorced or Separated Parents,* or a similar statement, to make the written declaration to release the exemption to the noncustodial parent. The noncustodial parent must attach the form or statement to his or her tax return. An example of a completed Form 8332 is shown later.

The exemption may be released for a single year, for a number of specified years (for example, alternate years), or for all future years, as specified in the declaration. If the exemption is released for more than one year, the original release must be attached to the return of the noncustodial parent for the first year of such release, and a copy of the release must be attached to the return for each succeeding taxable year for which the noncustodial parent claims the exemption.

Note. Since Form 8332 is presently irrevocable, the custodial parent who signs the release should make sure it is completed accurately.

Children Who Didn't Live With You. If you are claiming a child who didn't live with you under the rules for children of divorced or separated parents, enter the number of children who did not live with you (or who lived with their other parent for the greater part of the year) on the line or in the box to the right of line 6c labeled "No. of your children on 6c who didn't live with you due to divorce or separation."

Then you must either:

- Check the box on line 6d if your divorce decree or written separation agreement was in effect before 1985 and it states that you can claim the child as your dependent, or
- Attach Form 8332 or a similar statement to your return. If your divorce decree or separation agreement went into effect after 1984 and it states that you can claim the child as your dependent, you may attach a copy of the following pages from the decree or agreement instead of Form 8332:
  - Cover page (write the other parent's social security number on this page),
  - The page that states you can claim the child as your dependent, and
  - Signature page showing the date of the agreement.

Enter the total number of children who did not live with you for reasons other than divorce or separation on the line labeled "No. of other dependents listed on 6c." Include your dependent children who were not U.S. citizens and who lived in Canada or Mexico during 1989.

Child support. All child support payments actually received from the noncustodial parent are considered used for the support of the child.

Example. The noncustodial parent provides $1,200 for the child's support. This amount is considered as support provided by the noncustodial parent even if the $1,200 was actually spent on things other than support.

Support payments for an earlier year. If support payments made this year are not more than the amount required of the noncustodial parent, the amount of support provided by that parent is not reduced by any payment of support that parent owed for an earlier year. If the support payments are more than the amount required for this year, any payment for an earlier year is not support provided by the noncustodial parent for either the earlier year or for this year. It is reimbursement to the custodial parent for amounts paid for the support of the children in an earlier year.

Example. Under your divorce decree, you must pay $400 a month to your former spouse for the support of your two children. Last year you paid $4,000 instead of $4,800 due for the year. This year, if you pay the full amount, the entire $4,800 is considered support that you provided. If you also pay any part of the $800 you owe from last year, that amount is not included as support provided by you in either year.

Support provided by a third party for a divorced or separated parent is not included as support provided by that parent. However, see *Remarried parent,* next.

Example. You are divorced. During the entire year you and your child live with your mother in a house she owns. The fair rental value of the lodging provided by your mother for your child is $1,000. The home provided by your mother is not included in the amount of support you provide.

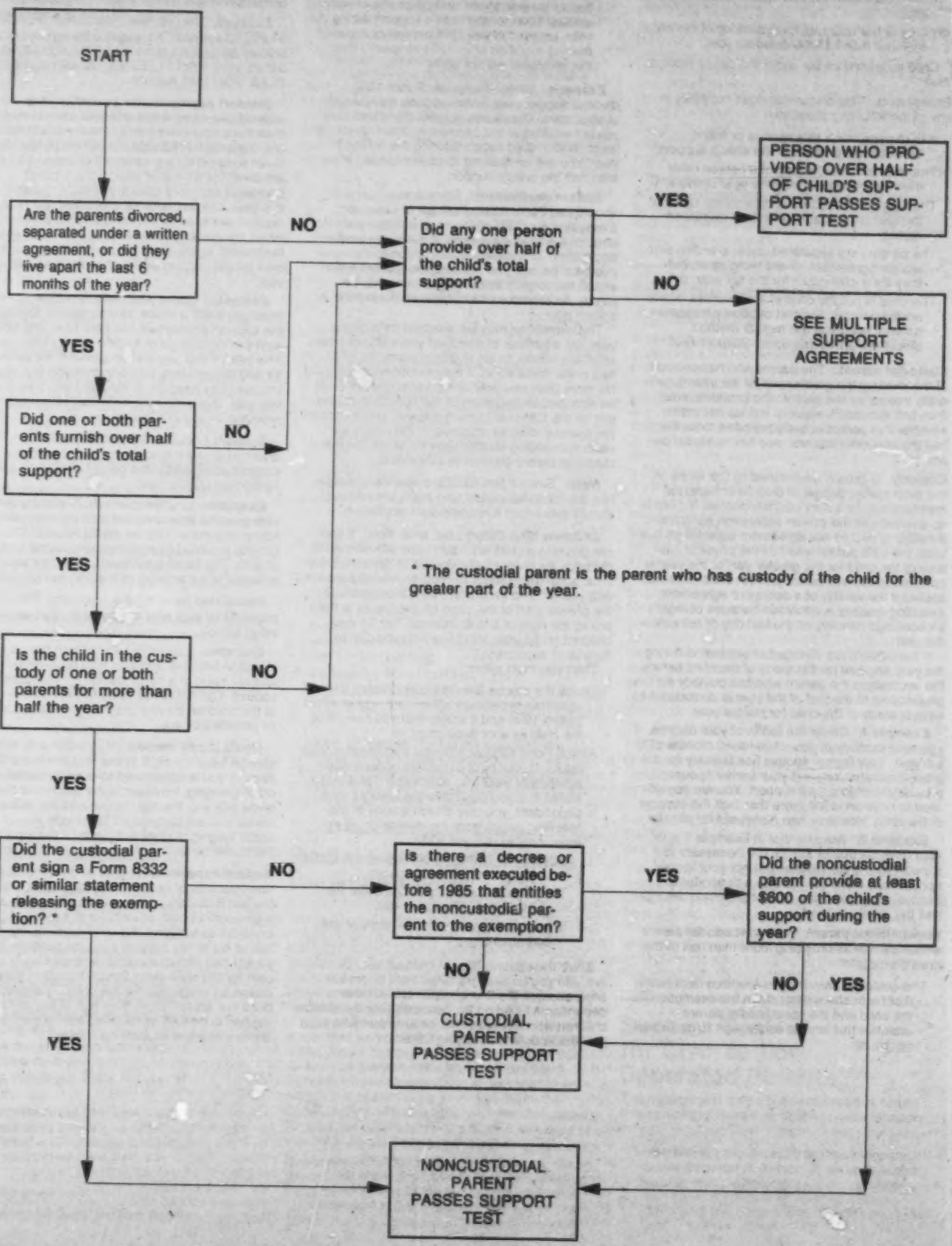
Remarried parent. If you remarry, the support provided by your new spouse is treated as provided by you.

Example. You have two children from a former marriage who live with you. You have remarried and are living in a home owned by your present spouse. The fair rental value of the home provided to the children by your present spouse is treated as provided by you.

Home jointly owned. If you and your former spouse have the right to use and live in the home, each of you is considered to provide half of your child's lodging. However, if the divorce decree gives only you the right to use and live in the home, you are considered to provide your child's entire lodging. It does not matter if the legal title to the home remains in the names of both parents.

Medical expenses. A child of divorced or separated parents or of parents who live apart during the last 6 months of the year, is treated as a dependent of both parents for the medical expense deduction if the child receives more than half of his or her support from the parents. Thus, a parent can deduct medical expenses he or she paid for the child even though the other parent claims an exemption for the child. This special rule does not apply if more than half of the child's support is treated as received from a person under a multiple support agreement.

SUPPORT TEST FOR CHILDREN OF DIVORCED OR SEPARATED PARENTS


START
Are the parents divorced, separated under a written agreement, or did they live apart the last 6 months of the year?
NO
YES
Did any one person provide over half of the child's total support?
YES
PERSON WHO PROVIDED OVER HALF OF CHILD'S SUPPORT PASSES SUPPORT TEST
NO
SEE MULTIPLE SUPPORT AGREEMENTS
Did one or both parents furnish over half of the child's total support?
NO
YES
Is the child in the custody of one or both parents for more than half the year?
NO
YES
Did the custodial parent sign a Form 8332 or similar statement releasing the exemption? *
NO
Is there a decree or agreement executed before 1985 that entitles the noncustodial parent to the exemption?
YES
Did the noncustodial parent provide at least $600 of the child's support during the year?
NO
YES
NO
CUSTODIAL PARENT PASSES SUPPORT TEST
YES
NONCUSTODIAL PARENT PASSES SUPPORT TEST

* The custodial parent is the parent who has custody of the child for the greater part of the year.

The Standard Deduction

Most taxpayers have a choice of either taking a standard deduction or itemizing their deductions. The standard deduction is a dollar amount which reduces the amount of income on which you are taxed. It is a benefit which reduces the need for many taxpayers to itemize actual deductions, such as medical expenses, contributions, or taxes, on Schedule A of Form 1040. The benefit is higher for taxpayers who are 65 or older or blind. If you have a choice, you should use the method which gives you the lower tax.

Persons not eligible for the standard deduction. Your standard deduction is **zero** and you should itemize any deductions you have if:

1) You are married and filing a separate return and your spouse itemizes deductions,
2) You are filing a tax return with a short tax year, or
3) You are a dual-status alien during the year. You are considered a dual-status alien if you were both a nonresident and resident alien during the year. ***Note.*** If you file a joint return with your spouse who was a U.S. citizen or resident at the end of 1989 and you both agree to be taxed on your combined worldwide income, you may take the standard deduction that applies to you.

Dependents may have a limited standard deduction. If you can be claimed as a dependent on another person's return (such as your parents' return), your standard deduction may be limited. See *Standard Deduction for Dependents* later in this section.

You benefit from the standard deduction if your standard deduction is more than the total of your allowable itemized deductions.

The standard deduction amounts for most taxpayers are shown on the *Standard Deduction Chart for Most People* in this section.

The amount of the standard deduction for a decedent's final tax return is the same as it would have been had the decedent continued to live. However, if the decedent was not 65 or older at the time of death, the higher standard deduction for age cannot be claimed.

Higher standard deduction for age (65 or older). If you do not itemize deductions, you are entitled to a higher standard deduction if you are age 65 or older at the end of the year. You are considered 65 on the day before your 65th birthday. Therefore, you may take a higher standard deduction for 1989 if your 65th birthday was on or before January 1, 1990.

See the *Standard Deduction Chart for People Age 65 or Older or Blind* in this section to figure the standard deduction amount you are entitled to.

Higher standard deduction for blindness. If you are blind on the last day of the year and you do not itemize deductions, you may be entitled to a higher standard deduction shown in the *Standard Deduction Chart for People Age 65 or Older or Blind.* You qualify for this benefit if you meet the following conditions.

If you are *totally blind,* attach a statement to this effect to your return.

If you are *partly blind,* you must submit with your return each year a certified statement from an eye physician or registered optometrist that:

- You cannot see better than 20/200 in the better eye with glasses or contact lenses, or
- Your field of vision is not more than 20 degrees.

If your eye condition will never improve beyond these limits, you can avoid having to get a new certified statement every year by having the examining eye physician include this fact in the certification you attach to your return. In later years just attach a statement referring to the certification. You should keep a copy of the certification in your records.

If your vision can be corrected beyond these limits only by contact lenses that you can wear only briefly because of pain, infection, or ulcers, you may take the higher standard deduction for blindness if you otherwise qualify.

Standard deduction for spouse. You may take the higher standard deduction if your spouse is age 65 or older or blind and:

1) You file a joint return, or
2) You file a separate return and your spouse had no gross income and could not be claimed as a dependent by another taxpayer.

Note. You may not claim the higher standard deduction for an individual, other than your spouse, for whom you can claim an exemption.

How to report. After you find your standard deduction amount, enter it on line 16 of Form 1040A or line 34 of Form 1040. If you use Form 1040EZ, your standard deduction is combined with your personal exemption and entered on line 4. If your standard deduction and personal exemption amount is more than $5,100, you must file Form 1040A or Form 1040.

Example 1. Larry, 45, and Donna, 42, are filing a joint return for 1989. Neither is blind. They decide not to itemize their deductions. Their standard deduction is $5,200.

Example 2. Assume the same facts as in *Example 1,* except that Larry is blind at the end of 1989. Larry and Donna's standard deduction is $5,800.

Example 3. Bill and Terry are filing a joint return for 1989. Both are over age 65. Neither is blind. If they do not itemize deductions, their standard deduction is $6,400.

Standard Deduction for Dependents

The standard deduction for an individual who can be claimed as a dependent on another person's tax return is generally limited to the greater of (a) $500, or (b) the individual's earned income for the year (but generally not more than $3,100).

However, if you are a dependent who is 65 or older or blind, your standard deduction may be higher.

If you are a dependent, use the *Standard Deduction Worksheet for Dependents,* to determine your standard deduction.

Earned income is salaries, wages, professional fees and other amounts received as pay for work you actually perform.

Earned income includes any part of a **scholarship or fellowship grant** that you must include in your gross income. See Publication 520, *Scholarships and Fellowships,* for more information.

After you find your standard deduction amount, enter it on line 16 of Form 1040A or line 34 of Form 1040. If you use Form 1040EZ, your standard deduction is combined with your personal exemption and entered on line 4. If your standard deduction and personal exemption amount is more than $5,100, you should file Form 1040A or Form 1040.

Example 1. Michael, who is single, is claimed as a dependent on his parents' 1989 tax return. He has interest income of $600 and wages of $150. He has no itemized deductions. Michael uses the Standard Deduction Worksheet for Dependents to find his standard deduction. It is $500 because the greater of $500, or his earned income ($150) is $500.

Example 2. Joe, a 22-year-old full-time college student, is claimed as a dependent on his parents' 1989 tax return. Joe is married and files a separate return. His wife does not itemize deductions on her separate return.

Joe has $1,500 in interest income and wages of $2,900. He has no itemized deductions. Joe finds his standard deduction by using the Standard Deduction Worksheet for Dependents. He enters his earned income, $2,900, on line 1. On line 3 he enters $2,900, the larger of $2,900, his earned income, or $500. Since Joe is married filing a separate return, he enters $2,600 on line 4. On line 5a he enters $2,600, because it is smaller than $2,900, his earned income.

Example 3. Amy, who is single, is claimed as a dependent on her parents' 1989 tax return. She is 18 years old and blind. She has interest income of $900 and wages of $3,000. She has no itemized deductions. Amy uses the Standard Deduction Worksheet for Dependents to find her standard deduction. She enters her wages of $3,000 on line 1. On line 3 she enters $3,000, the larger of her wages on line 1 and the $500 on line 2. Since she is single, Amy enters $3,100 on line 4. She enters $3,000 on line 5a. This is the smaller of the amounts on lines 3 and 4. Because she checked one box in the top part of the worksheet, she enters $750 on line 5b. She then adds the amounts on lines 5a and 5b and enters her standard deduction of $3,750 on line 5c.

Who Should Itemize

Some taxpayers should itemize their deductions because it will save them money. Others should itemize because they do not qualify for the standard deduction, as discussed earlier.

You should itemize your deductions if the total of your itemized deductions is more than the standard deduction to which you would otherwise be entitled.

You may benefit from itemizing your deductions on Schedule A of Form 1040 if you:

- Do not qualify for the standard deduction, or the amount you can claim is limited,
- Had large uninsured medical and dental expenses during the year,
- Paid interest and taxes on your home,
- Had large unreimbursed employee business expenses or other miscellaneous deductions,
- Had large casualty or theft losses not covered by insurance,
- Made large contributions to qualified charities, or
- Your total itemized deductions are more than the highest standard deduction to which you are otherwise entitled.

If you decide to itemize your deductions, complete Schedule A and attach it to your Form 1040. Enter the amount from Schedule A, line 26, on Form 1040, line 34.

If you itemize even though your itemized deductions are less than the amount of your standard deduction, write "IE" (itemized elected) on the dotted line to the left of line 34 (Form 1040).

Changing your mind. If you do not itemize your deductions and later find that you should have itemized — or if you itemize your deductions and later find you should not have — you may change your return by filing Form 1040X, *Amended U.S. Individual Income Tax Return.*

If you are married and filed separate returns, you may change methods of taking deductions only if you and your spouse both make the same changes. Both of you must file a consent to assessment for any additional tax either one may owe as a result of the change.

You and your spouse can use the method that gives you the lowest total tax, even though one of

Caution. If you are married filing a separate return and your spouse itemizes deductions, or if you are a dual-status alien, you cannot take the standard deduction even if you were 65 or older or blind.

Standard Deduction Chart for Most People

DO NOT use this chart if you were 65 or older or blind, OR if someone can claim you as a dependent.

If your Filing Status is:	Your standard deduction is:
Single	$3,100
Married filing joint return or Qualifying widow(er) with dependent child	$5,200
Married filing separate return	$2,600
Head of household	$4,550

Standard Deduction Chart for People Age 65 or Older or Blind

If someone can claim you as a dependent, use the worksheet below, instead.

If you were 65 or older or blind, check the correct number of boxes below. Then go to the chart.

You	65 or older ☐	Blind ☐
Your spouse, if claiming spouse's exemption	65 or older ☐	Blind ☐

Total number of boxes you checked ☐

If your Filing Status is:	and the number in the box above is:	Your standard deduction is:
Single	1	$3,850
	2	4,600
Married filing joint return or Qualifying widow(er) with dependent child	1	$5,800
	2	6,400
	3	7,000
	4	7,600
Married filing separate return	1	$3,200
	2	3,800
	3	4,400
	4	5,000
Head of household	1	$5,300
	2	6,050

Standard Deduction Worksheet for Dependents

Use this worksheet ONLY if someone can claim you as a dependent (Keep for your records)

If you were 65 or older or blind, check the correct number of boxes below. Then go to the worksheet.

You	65 or older ☐	Blind ☐
Your spouse, if claiming spouse's exemption	65 or older ☐	Blind ☐

Total number of boxes you checked ☐

1. Enter your **earned income** ..... 1. _____
2. Minimum amount 2. $500
3. Compare the amounts on lines 1 and 2. Enter the **larger** of the two amounts ..... 3. _____
4. Enter the amount shown below for your filing status.
   - Single, enter $3,100
   - Married filing separate return, enter $2,600
   - Married filing jointly or Qualifying widow(er) with dependent child, enter $5,200
   - Head of household, enter $4,550

   ..... 4. _____
5. **Standard deduction.**
   a. Compare the amounts on lines 3 and 4. Enter the **smaller** of the two amounts. If under 65 and not blind, stop here. This amount is your standard deduction. Otherwise, go on to line 5b ..... 5a. _____
   b. If 65 or older or blind, multiply $750 ($600 if married filing a separate return, or qualifying widow(er) with dependent child) by the total number of boxes you checked above. Enter the result ..... 5b. _____
   c. Add lines 5a and 5b. Enter the total. This is your standard deduction. ..... 5c. _____

you may pay more tax than the other. You **both must use the same method** of claiming deductions. If one itemizes deductions, the other should itemize because he or she will not qualify for the standard deduction (see *Persons not eligible for the standard deduction*, earlier).

Foster Child or Adult

If you receive qualified foster care payments during the year for caring for a qualified foster individual, you do not have to include the payments in your income. However, if you receive such payments, you may not claim that person as a dependent. See *Claiming an exemption* later. The payments you receive are to reimburse you for expenses you incur on behalf of the agency responsible for the foster individual.

A qualified foster individual is an individual who is living in a foster family home who was placed there by:

An agency of a state or one of its political subdivisions, or

A tax-exempt child placement agency licensed by a state, if the individual is under age 19.

Qualified foster care payments are amounts you receive from a state or one of its political subdivisions, or from a tax-exempt child placing agency for caring for a qualified foster individual in your home. A qualified foster care payment is also any payment you receive as a "difficulty of care payment."

Difficulty of care payments are additional payments you receive for providing care to a qualified foster individual who is physically, mentally, or emotionally handicapped. The state must have determined that there was a need for the additional payment and it must be designated as a difficulty of care payment.

Excess payments. If you receive qualified foster care payments to care for more than 5 adults, or difficulty of care payments for more than 10 children or for more than 5 adults, you must include a portion of those payments in income. Report as income foster care or difficulty of care payments you receive for each adult after the fifth adult you are paid for. Also report as income qualified foster or difficulty of care payments you receive for each child after the tenth child you are paid for.

Excess expenses. If you find that expenses you incur to care for foster children or adults are more than payments you receive, you may take a charitable contribution for the excess expenses on Schedule A (Form 1040) if you itemize deductions. To claim a charitable contribution, you should keep adequate records of the income and expenses of your foster care. For more information on recordkeeping, see Publication 552, *Recordkeeping for Individuals*.

Other payments for foster care. If, in addition to or instead of receiving qualified foster care or difficulty of care payments, you are paid to maintain space in your home for foster care, you may be considered as self-employed and engaged in a business.

You include in your income all payments you received to maintain space in your home. You also include in income payments for additional foster individuals as discussed earlier under *Excess payments*. You report them as business income on Schedule C (Form 1040).

You may deduct business expenses to the extent they are incurred to care for more than 5 foster adults (or for more than 10 foster children if you receive difficulty of care payments), to maintain space in your home, or for costs you incurred to provide foster care services. If you receive qualified foster care or difficulty of care payments, you may deduct a portion of expenses only if you are required to report these payments as income.

Example 1. You receive qualified foster care payments to care for 10 foster children. Since you are not required to include the payments in income, you may not deduct the excess expenses as business expenses. If you itemize deductions, you may, however, claim the excess expenses as a charitable contribution.

Example 2. You receive difficulty of care payments to care for 11 foster children. Since you are required to report as income the difficulty of care payment for the eleventh child, you may deduct a pro rata share of business expenses incurred to care for that child.

You may not claim a foster child or adult as a dependent because your reimbursed expenses are incurred for the child-placing agency. You incur any unreimbursed expenses in your business.

Example 3. You agreed to provide continuous 24-hour maintenance of three spaces in your home for the temporary and emergency care of children to be placed there by the local welfare department. You provide the items of support necessary to the children. These include room, board, clothing, personal needs, and spending money. Any foster children who come into your home help with household chores as are normally expected of children in a family, but do not perform these chores in return for your support. The welfare department inspects the home periodically to insure that the foster children placed there receive proper care and gives advice and supervision to you as needed.

The welfare department pays you a monthly fee for each of the three spaces maintained for the children whether or not the spaces are used.

You are in an independent business and are not an employee of the agency. A part of each payment you receive is for the space you keep available. You must include in income the part that is to provide space.

Claiming an exemption. You may be able to claim an exemption for a foster child or adult if you do not receive payments for caring for that individual. However, you must meet the five dependency tests as follows:

1) Member of household — the individual must be a member of your household for the entire year except for death and temporary absences,

2) Citizenship — the individual must be a U.S. citizen, resident, or national, or a resident of Canada or Mexico for some part of the calendar year,

3) Joint return — the individual must not file a joint return,

4) Gross income — the individual may not have gross income of $2,000 or more for 1989 unless he or she is under 19 or a full-time student under age 24,

5) Support — you must provide over one-half of the individual's support for the year. To figure this, compare the amount you provided with the support received by this person from all sources. You may use the *Worksheet for Determining Support* for this purpose. However, if you receive payments from a foster care agency to care for this person, you may not claim his or her exemption.

Form **2120** (Rev. August 1989)

Department of the Treasury—Internal Revenue Service

Multiple Support Declaration

OMB No. 1545-0071
Expires 6-30-91
Attachment Sequence No. **50**

During the calendar year 19 89, I paid more than 10% of the support of

Samantha Smith
(Name of person)

I could have claimed this person as a dependent except that I did not pay more than 50% of his or her support. I understand that this person is being claimed as a dependent on the income tax return of

Samuel Smith
(Name)

1821 River Drive Windy City, Il 60600
(Address)

I agree not to claim an exemption for this person on my Federal income tax return for any tax year that began in this calendar year.

Clarissa Williams — 999 : 00 : 1111
(Your signature) (Your social security number)

April 9, 1990 — 1776 Independence Lane Liberty, Pa. 16930
(Date) (Address)

Form **8332** (Rev. December 1987)

Department of the Treasury
Internal Revenue Service

Release of Claim to Exemption for Child of Divorced or Separated Parents

▶ Attach to Tax Return of Parent Claiming Exemption

OMB No. 1545-0915
Expires 10-31-90
Attachment Sequence No. **51**

Name(s) of parent claiming exemption as shown on tax return: Virginia Anderson

Social security number: 111 00 2222

Part I Release of Claim to Exemption for Current Year

I agree not to claim an exemption for Julie and Karen
Name(s) of child (or children)

for the calendar year 19 89.

David Anderson — 222 - 00 - 1111 — 1/31/90
Signature of parent releasing claim to exemption — Social security number — Date

If you choose not to claim an exemption for this child (or children) for future tax years, complete Part II, as explained in the instructions below.

Part II Release of Claim to Exemption for Future Years

I agree not to claim an exemption for _____
Name(s) of child (or children)

for tax year(s) _____
(Specify. See instructions.)

Signature of parent releasing claim to exemption — Social security number — Date

Worksheet for Determining Support

Income	1) Did the person you support receive any income, such as wages, interest, dividends, pensions, rents, social security, or welfare? (If yes, complete lines 2, 3, 4, and 5)	☐ Yes ☐ No
	2) Total income received	$
	3) Amount of income used for support	$
	4) Amount of income used for other purposes	$
	5) Amount of income saved	$
	(The total of lines 3, 4, and 5 should equal line 2)	
Expenses for Entire Household (where the person you support lived)	6) Lodging (Complete item a or b)	
	a) Rent paid	$
	b) If not rented, show fair rental value of home. If the person you support owns the home, include this amount in line 20.	$
	7) Food	$
	8) Utilities (heat, light, water, etc. not included in line 6a or 6b)	$
	9) Repairs (not included in line 6a or 6b)	$
	10) Other. Do not include expenses of maintaining home, such as mortgage interest, real estate taxes, and insurance.	$
	11) Total household expenses (Add lines 6 through 10)	$
	12) Total number of persons living in household	
Expenses for the Person You Support	13) Each person's part of household expenses (line 11 divided by line 12)	$
	14) Clothing	$
	15) Education	$
	16) Medical, dental	$
	17) Travel, recreation	$
	18) Other (specify)	$
	19) Total cost of support for the year (Add lines 13 through 18)	$
	20) Amount the person provided for own support (line 3, plus line 6b if the person you support owns the home)	$
	21) Amount others provided for the person's support. Include amounts provided by state, local, and other welfare societies or agencies.	$
	22) Amount you provided for the person's support (line 19 minus lines 20 and 21)	$
	23) 50% of line 19	$

If line 22 is more than line 23, you meet the support test for the person. If the person meets the other dependency tests, you may claim an exemption for that person. If line 23 is more than line 22, you may still be able to claim an exemption for that person under a multiple support agreement. See *Multiple Support Agreement* earlier in this publication.

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